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DEPARTMENT OF STATE

MEMORANDUM OF CONVERSATION

February 6, 1957

SUBJECT: Economic Discussions with Saudi Arabian Representatives

PARTICIPANTS: U.S. Team

1. Mr. Robert Murphy, Deputy Under Secretary
2. Ambassador George Wadsworth
3. Mr. Vance Brand, Export-Import Bank
4. Rear Admiral Bergin, United States Navy
5. Mr. Robert G. Barnes, Special Assistant to the
Under Secretary for Mutual Security Affairs
6. Mr. Jack C. Corbett, Director, Office of Inter-
national Financial and Development Affairs
7. Mr. Cedric Seager, Regional Director, Office of
Near East and South Asia Operations, International
Cooperation Administration
8. Mr. L. Wade Latham, Politico-Economic Adviser, NEA
9. Mr. Merrill C. Gay, Adviser, Office of International
Financial and Development Affairs
10. Mr. John Shaw, Officer-in-Charge Economic Affairs, NEA
11. Mr. William Welk, Export-Import Bank

Saudi Arabian Team

1. Shaikh Muhammad Surur, Saudi Arabian Minister of
Finance
2. Ambassador Khayyal, Saudi Arabia
3. Fasem Bey al-Khalidi, Saudi Representative to the IMF
4. Mr. Mamdouh Adib, Interpreter and Recorder

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Mr. Murphy opened the meeting with a statement in which he pointed out that since our discussion of the day before yesterday we had considered further the problems which the Saudi Arabian Delegation presented in the previous meeting. He recalled that His Majesty had indicated interest in the construction of several projects. The United States also believed these projects to be

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projects to be important to Saudi Arabia's economic development. We therefore wished to state that the United States was prepared to consider with the Government of Saudi Arabia financing of technical and engineering studies on these projects which would be necessary to move them towards construction. We further believed that many of the projects can and should be financed through use of future revenues of the Government. In this connection the United States was prepared to lend its good offices in the examination of such possibilities, including the implementation of the Saudi Arabian decision to join the International Bank for Reconstruction and Development and the International Monetary Fund. The United States also recognized current financial problems faced by the Saudi Arabian Government and the fact that some of the activities in which the Government was particularly interested were a matter of urgency and were not fully financible by utilization of future revenues. We were, therefore, prepared in principle to offer some grant assistance.

In the development of Saudi Arabia and in recognition of its problems, we were prepared to receive at this time the proposals of the Government of Saudi Arabia. The Finance Minister, Mr. Surur, responded that this was very good; however, the King, he said, had instructed the delegation not to ask for any particular level of aid. The Government of Saudi Arabia was aware of the United States interest in Saudi Arabia and its need for assistance. The Government desired assurances of assistance because it was in need of having certain projects carried out and did not possess means of doing so. He said he thought the United States summary was quite comprehensive, but that he would like to know on what projects the United States would be willing to help. In reply Mr. Murphy indicated that the United States assistance would be extended in terms of specific projects, for example, the Port of Damman. However, we were not interested in helping on the railroad project. The improvement at the Port of Damman was indicative of the type of project on which this Government could be helpful.

In response to inquiries as to the priorities that Saudi Arabia attached to the projects listed in the King's memorandum to the President, the Saudi Arabian delegation indicated that the Damman Port came first, followed by the construction of a trans-continental highway. It was explained that this road was now being surveyed. It was stated that the order in which the projects were listed in the King's memorandum to the President indicated the priority the Government attached to the projects presented to this Government for consideration. With respect to the Port, it was brought out that the Saudi Arabian Government had in mind the extension of the berthing so as to provide more berthing space for ships, as well as a roadway along the existing railroad line so as to facilitate the unloading of smaller vessels utilizing the Port.

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Mr. Murphy referred to the present situation in which the Saudi Arabian Government found itself was a result of reduced petroleum exports, and said the United States wondered whether the Saudi Arabian Government contemplated restoring the flow of petroleum to Bahrein. He noted that this would provide about \$36 million annually to the Government when this traffic was resumed. In replying the Minister of Finance stated the Government was anxious to resume the delivery of petroleum to the Bahrein refinery but did not know when this would be feasible. The termination of this oil movement accounted for about one half of the current reduction in oil revenue. The decision to resume the flow of petroleum, he said, involved certain political questions.

In order to determine more specifically those projects on which assistance might be extended, Mr. Murphy suggested that perhaps experts from both sides might discuss possible projects, and that perhaps Ambassador Richards might participate in these discussions. The Finance Minister indicated, whereas this was agreeable to him, he would like to know the amount of assistance the United States was prepared to extend. Mr. Murphy said he wasn't prepared to mention a figure at this time; the United States was willing, in principle, however, to give a modest level of grant aid. The Finance Minister then wondered whether the United States could state whether it would assist on the Damman Project, to which Mr. Murphy replied that the United States certainly believed the Damman Port to be a project on which the United States could render assistance. However, the amount of financing might range from \$5 million to \$100 million and we could not commit ourselves to any specific amount of assistance until we better understood the plans of the Saudi Arabian Government with respect to development of the Port.

Mr. Murphy suggested, with regard to the implementation of our understanding that notes should be exchanged and arrangements made for the working out of details later. The meeting closed with a discussion of Ambassador Wadsworth's proposal that someone from the Saudi Economic Delegation, and he suggested the Finance Minister, participate in the meeting with the Secretary tomorrow, at which time there would be a review of the discussions which had occurred at the several meetings with the Deputy Foreign Minister, Mr. Yasin.

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